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## Enroll in Tax\$ave and keep more of what you earn

**S**ince 1996, the New Jersey State Employees Tax Savings Program (Tax\$ave) has been saving State employees tax money.

Tax\$ave allows eligible employees to set aside, through payroll deductions, before-tax dollars that will be used to pay for qualified medical, dental, and dependent care expenses.

Tax\$ave — a benefit program defined by Section 125 of the federal Internal Revenue Code — consists of three separate components: the *Premium Option Plan* (POP), and two Flexible Spending Accounts — the *Unreimbursed Medical Spending Account* (UMSA) and the *Dependent Care Spending Account* (DCSA). An eligible employee may choose to participate in any or all of these plans. An eligible employee is any employee of the State, a state college or university, or other state agency who is eligible to participate in the State Health Benefits Program (SHBP).

**The Premium Option Plan (POP)** is administered by the State and allows you to pay any of your SHBP medical and/or dental premiums with before-tax dollars. With State employees paying more toward their medical benefits, the

tax saving advantages of the POP are more valuable than ever!

**Enrollment in the POP is automatic** if you are making a premium contribution for dental and/or medical coverage. The result is that you will pay less in federal taxes.

If you choose not to take advantage of the tax savings available under the POP, you must obtain a *Declination of POP* form from your benefits administrator. For details on the POP see the *Premium Option Plan 2002* pamphlet that you received as a payroll stuffer.

**Flexible Spending Accounts (FSA's)** provide two more innovative ways for you to save tax dollars. Horizon Healthcare Insurance Agency, Inc. administers both plans.

**1) The Unreimbursed Medical Spending Account (UMSA)** allows you to save taxes on out-of-pocket medical and dental expenses. Basically, any medical or dental expense that would be deductible on your income tax is reimbursable under this FSA. IRS Publication 502, *Medical and Dental Expenses*, provides a complete list of the services eligible for reimbursement.

**2) The Dependent Care Spending Account (DCSA)** allows you to set aside up to \$5,000 of your before-tax salary each calendar year to pay for qualified dependent care expenses. IRS Publication 503, *Child and Dependent Care Expenses*, provides a complete list of the services available for reimbursement.

For further information on Tax\$ave's Flexible Spending Accounts, see the Tax\$ave pamphlet, *Savings You Can Bank On*, that you received with your paycheck, or visit Horizon Healthcare's Internet site for information, forms, and interactive calculation tools. Horizon Healthcare can be reached through the Division of Pensions and Benefits' Tax\$ave page at: [www.state.nj.us/treasury/pensions/taxsave.htm](http://www.state.nj.us/treasury/pensions/taxsave.htm) You can also attend one of the employee seminars offered by the Horizon Healthcare Insurance Agency. For seminar information please call Horizon Healthcare at 1-800-224-4426.

## Tax\$ave Open Enrollment

**T**he Tax\$ave 2002 Open Enrollment period begins on **September 14** and ends on **October 31, 2001**. Tax\$ave Open Enrollment is your opportunity to save tax dollars in the 2002 tax year with the **POP** and the **Flexible Spending Accounts**.

Enrollment in the POP component of Tax\$ave is automatic every year. *The Flexible Spending Accounts (the UMSA and/or DCSA) require active enrollment each year.* There are a variety of easy ways to enroll.

✓ You may enroll over the phone by calling Horizon Healthcare's automated voice response system at 1-800-224-4426 (September 14 — October 31, 2001); or

✓ You may enroll over the Internet during the same time period. Go to the Tax\$ave page at: [www.state.nj.us/treasury/pensions/taxsave.htm](http://www.state.nj.us/treasury/pensions/taxsave.htm) and follow the link to the Horizon Healthcare website; or

✓ You can enroll by obtaining an enrollment kit with the necessary FSA election forms from your benefits administrator. These forms must be postmarked by October 31, 2001, in order to enroll for the 2002 plan year.

## NEW! Online Claims (Coming January 1, 2002)

**Y**ou can now file Unreimbursed Medical and Dependent Care Spending Account claims online at Horizon Healthcare's website. Also available are downloadable claim forms if you prefer to mail or fax in your claims.

Horizon Healthcare's website can be reached through a link at the New Jersey Division of Pensions and Benefits' homepage at [www.state.nj.us/treasury/pensions/taxsave.htm](http://www.state.nj.us/treasury/pensions/taxsave.htm)

The Horizon Healthcare website also offers these other convenient features:

- ✓ Online Flexible Spending Account enrollment;
- ✓ Account balance information;
- ✓ Online calculators and downloadable worksheets for Unreimbursed Medical expenses, and Dependent Care Accounts vs. Federal Tax Credit.

## Pennsylvania State non-taxability

**W**e've already told you how Tax\$ave can save money on your federal taxes. What you may not know is that **if you live in Pennsylvania**, contributions to your Unreimbursed Medical Spending Account\* (UMSA) are exempt from Pennsylvania state income tax. This means that contributions to your UMSA save you money on both your federal **and** Pennsylvania state tax. It's one more reason for Pennsylvania residents to sign up for an UMSA during the Tax\$ave Open Enrollment.

*\*Dependent Care Spending Accounts are subject to Pennsylvania state income tax but remain exempt from federal tax.*

## Flexible Spending Accounts have minimal impact on Social Security benefits

**S**ince payments to the **Flexible Spending Accounts** (UMSA and DCSA) and benefits premium payments under **POP** are not subject to Social Security deductions, some members have opted not to participate in Tax\$ave because it would reduce their Social Security benefit. There are several reasons why this may not be a good financial decision.

First, Social Security benefits are calculated using a 35-year average of your earnings. A reduction of \$2,000 a year or even \$5,000 a year over some of the 35-year span would have little effect on your average salary. Second, Social Security is a progressive benefit; that is, lower earnings members receive a higher percentage benefit than higher earnings members. Finally, although Social Security will probably be there for you when you retire, no one knows its form or shape in the future.

The Social Security Administration

has provided us with an example of an employee who retired in 1998 at age 65 and whose wages had been at the maximum wages subject to Social Security deductions. Upon retirement, this individual's monthly Social Security allowance was \$1,343. If that same person had been contributing \$2,000 a year for the last 10 years to a Flexible Spending Account, (which would have provided a tax savings of between \$460 – \$900 per year, depending on the person's tax bracket) the subsequent reduction in Social Security wages would have produced a monthly Social Security allowance of \$1,335, a difference of \$8 per month. Decide for yourself if this is reason enough to choose against saving on taxes now!

Remember to use the Tax\$ave Internet site designed specifically for State employees. You can access the site from the Division of Pensions and Benefits homepage at: [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions)

## Orthodontic care and Medical Spending Accounts

**O**rthodontic care can sometimes require years of treatment. While these services are eligible for reimbursement from your Unreimbursed Medical Spending Account, IRS rules require that claims filed for orthodontia (or other long term services) *must only be for treatment occurring within the tax year for which you are filing.*

If your orthodontist bills on a monthly basis, this is sufficient. But if payment for ongoing treatment(s) is made in a lump-sum payment, you must ask the orthodontist to provide you with a pro-rated bill for the services provided within each tax year. This will allow you to continue to receive reimbursement from year to year, as your treatment progresses.

### NJ Division of Pensions and Benefits



### Tax\$ave 2002 Open Enrollment News

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You can access Tax\$ave forms and interactive calculation tools by visiting Horizon through a link from Pensions and Benefits' homepage at: [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions)